How to spot high-growth suburbs before property values skyrocket

'Buy low, sell high' is the goal for any successful investment, but predicting the ups and downs of market cycles can be challenging. Property, in particular, is subject to a vast array of influencing factors, but industry experts believe learning to spot a few key indicators can significantly increase your chances of financial success.

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“If you time your entry into a hotspot suburb well, catching the market as it hits its upswing, you can see strong growth over a relatively short space of time,” says Schalk van der Merwe, a Rawson Property Group franchisee. “This allows you to amass equity very quickly, which can then be used to expand your portfolio.”

Recognise the signs

In order to buy at the right time, however, you need to be able to recognise the signs of an area on the cusp of popularity. This, Van der Merwe says, requires a combination of a birds-eye view of the general property climate, as well as more detailed information on potential suburbs.

“If you look at national property trends at the moment, it’s clear that the market is slowing down, with average house price inflation at 5.2% as of August 2016,” he says. “Not all areas are being affected to such a great extent, however, and these are the spots investors are likely to be looking at in the near future.”

CT takes top spot

Currently, the City of Cape Town is taking the top spot for property growth, sitting well above 10% per annum. Gauteng metros are less exuberant, but still offer solid potential with Ekurhuleni, City of Tshwane and City of Johannesburg growing between 4% and 6% per annum.

“Within these areas there are smaller trends at work as well,” says Van der Merwe. “Statistics indicate that low- and mid-value market segments are doing far better than high-end, luxury properties. Sectional title properties are also outperforming freehold homes on average – partly because they tend to fall into the more affordable market segments, and partly because they offer security and community benefits that are becoming more popular as time goes by.”

With these trends in mind, Van der Merwe suggests doing some research to find a suitably promising suburb. Here are a few indicators to look for:

Gentrification

“Keep an eye out for suburbs that may have had a poor reputation in the past, but are now attracting an increasing number of young residents with decent incomes,” says Van der Merwe. “New retailers, cafes and restaurants opening up are good signs, as is an increase in renovation or new construction in the area. Together, these factors breathe new life into tired suburbs, and if the momentum is maintained, can turn them into trendy hotspots with excellent growth potential.”

Large-scale infrastructure projects and/or developments

Large infrastructure and development projects create jobs, and jobs draw new residents to an area. If you see a big office park, lifestyle or shopping centre going up in a suburb, chances are the property values will soon improve. “It’s best to wait until construction is underway, however, as projects don’t always get off the ground as promised,” says Van der Merwe.

Ripple effect

“If you miss the boat and the suburb you’re interested in has already outgrown your budget, consider a purchase in a neighbouring suburb,” says Van der Merwe. “We often see something of a ripple effect, with suburbs bordering a high-growth area, experiencing growth of their own thanks to the positive changes and increased popularity of the neighbourhood next door.” Van der Merwe recommends paying close attention to suburbs with median prices more than 5% lower than their trendy neighbours. “This is often a sign that they’ll be playing price ‘catch-up’ in the near future,” he explains, “and if you monitor their price trends closely, you can catch the upswing as it begins.”

High demand, low supply

The ratio of demand to supply is a key driver of price growth, so Van der Merwe recommends looking for suburbs with little to no capacity for new construction, and increasing demand.

“Rising rental yields can be a good indicator of suburbs that are likely to see this balance changing in favour of investors,” he adds, “as they indicate popular rental areas, and renters typically buy in the same suburbs in which they rented.”

Asking prices below replacement costs

In most cases, newly-built homes in developments cost between 10% and 30% more than second-hand properties in neighbouring suburbs. In these cases, it can be a great idea to opt for the more affordable properties and wait for their prices to join those of the more expensive estates a few years down the line.

Once you’ve identified a potential high-growth area using the indicators above, Van der Merwe suggests contacting an estate agent who is active in the area to discuss more localised buyer trends.

“With the help of a good agent, you should be able to source a property that fits in with both micro and macro trends, giving your investment the best chance for growth on all fronts,” he says.